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Loree, Leonor Fresnel

Statement of L.F. Loree

[S.I.]

1917

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Statement of

L. F. LOREE,

President, The Delaware and Hudson Company,

before the

INTERSTATE COMMERCE COMMISSION,

WASHINGTON, D. C.

May 7, 1917.

Ex parte 57.

ADVANCE IN FREIGHT RATES,

1917.

STATEMENT OF L. F. LOREE, PRESIDENT, THE
DELAWARE AND HUDSON COMPANY, BEFORE
THE INTERSTATE COMMERCE COMMISSION,
WASHINGTON, D. C., MAY 7, 1917.

EX PARTE 57, ADVANCE IN FREIGHT RATES, 1917.

I am the President of The Delaware and Hudson Company, which operates 909.38 miles of railroad extending from Plymouth, Pa., a few miles from Wilkes-Barre, to Rouses Point near the Canadian boundary. Its lines also serves the cities of Binghamton, Cooperstown, Albany, Troy and Rutland.

I have given careful consideration to the matter of the emergency of the railways, including those of The Delaware and Hudson Co. The word "emergency" appears from the dictionaries to stand for three quite distinct things:

1. Something coming forth into view.
2. A sudden or unexpected happening.
3. An occasion for action; a crisis.

The financial plight of the railways has emerged within recent months so that "it can be seen" by all and has now come to be a "crisis, demanding action," but in no sense can it be considered as a "sudden or unexpected happening." It is in part the consequence of forces which have been operating and gaining steadily in momentum for at least three decades, while it is also in part the consequence of huge and unprecedented forces that began to be brought into action in the early part of 1914. We may, therefore, dismiss the second definition and consider the first and third.

I submit for the consideration of the Commission two charts cut from the New York Times Annalist of Monday,

April 16, 1917. If we take the curve of the Cost of Living, being the fluctuations in the average wholesale prices of twenty-five food commodities selected and arranged to represent a theoretical family's food budget, and consider this as one of a number of significant tests, it will be seen that there began to "come forth into view" in November, 1915, a significant rise in cost which has been steadily moving onward with increasing pitch to the present time and the end of which is not yet indicated. Moreover, the emergency is now "a crisis, an occasion for action," for it is plainly apparent that without relief the situation will increase in difficulties until the plight of the railways becomes the plight of all dependent upon transportation; *i. e.*, of the whole economic complex.

If, now, we consider the other chart from the Annalist, the Movement of Stock Market Averages, it will be seen that the rise in the closing average prices of both the twenty-five railroads and twenty-five industrials began toward the end of March, 1915, or about seven months before the beginning of the rise in the cost of living. It is frequently said of the exchanges that one of their chief functions is to discount the future and that their records of today forecast conditions six months hence. Certainly we have here a remarkable example supporting that contention. Patrick Henry many years ago observed "I know of no way of judging the future but by the past." If this chart is significant, it indicates in the present downward tendency of security value that the exchanges felt as long ago as last November that there was a failure on the part of those in authority to recognize the coming crisis, and if we consider their action of the past few weeks they forecast a veritable debacle unless intelligent, vigorous and decisive action is had at once.

It is of the first importance to try to arrive at an exact appreciation of just what has happened and is happening, and the relation of the railroads thereto. Our railroads have been

in private hands since their construction began now nearly 90 years ago and, though during late years the control over their affairs has been extreme and the liberty of action of their officers has been tremendously curtailed, these officers are still held responsible and still feel responsible for their operation and its results. It would be a reflection upon their ability and responsibility if the condition in which the railroads now are was due to any neglect or inadequacy of their own effort. Their vindication is that it is admitted on all sides that these instruments of transportation have steadily improved in their character and efficiency, and that whether we consider the capital involved per mile of line open, cost of the movement per passenger or per ton of freight carried, or the declining ratio of the amount of capital involved to the unit of service rendered, their history is the envy of the civilized world.

We must, therefore, look for other explanations. There are many who consider money solely as a standard of value and for that purpose as having a fixed and unfluctuating value. If we take that view, it is apparent that railroad service constitutes about the only commodity or service which has not in the past two years risen as compared with the standard. If this be the case, it is apparent that there is necessity for a general and immediate adjustment or increase in the rates charged for railroad service, for otherwise the railroads will be unable to secure, out of their revenues, the labor and materials necessary for their operation, to meet their fixed charges and dividend requirements, and to pay interest sufficient to attract the additional capital which is necessary for their development.

There are others who consider money rather in its function as a medium of exchange. They feel this to be a proper view which reduces all transactions to barter. If we take that view, it is apparent that in the past two years there has been a diminution in the value of money, and that with the little-

varying schedules of rates and the largely-increasing rise of wages and prices of materials and supplies and of the rental value of money, a fixed quantity of railroad transportation is, from year to year and especially during the past two years, exchanged for a steadily decreasing quantity of railroad labor and railroad materials and supplies, as well as for money borrowed. If this be the case, it is apparent that the railroads are not now asking for real advances in rates but merely for readjustments (readjustments that I think will be inadequate) sufficient to make up the losses which they have sustained by reason of general rises in the wages level and the prices level.

Consider for a moment what the financial situation of the railroads would be if their rate schedules, instead of being stated in money, were stated in fractions of the value of the different commodities carried. For example, when wheat sold at 75c. per bushel at the Atlantic seaboard, the rate from Chicago to New York was 25c. per 100 lbs., or, if measured in the commodity, one bushel in every five. With wheat selling at \$2.25 a freight rate of one bushel in every five would amount in money to 75c. per 100 lbs., but the rate actually now in force is about 16.8c. per 100 lbs.

In the same way the railroads have seen the cost of their capital go up in response to intensified competition from public and private sources. Moreover, they have seen the natural reaction of their rates of fare and freight to these conditions impeded or prevented by public authority. So far from keeping pace with rising costs which have been in progress since 1896, they have been required to reduce rates which had not been changed since the value of money was at its highest. Take an example from my own experience. There was a severe reduction in the net operating revenues of the railroads of The Delaware and Hudson Co. comparing 1916 with 1915. 61.38% of this reduction was due to a compulsory reduction in the anthracite rates in force during the last nine

months of the year. If these reductions had been in force the entire year, the loss in net would have been 21.5% greater than it actually was.

What we are confronting, then, is in very truth an emergency; something that has been "coming forth into view" for the past thirty years and, for the past two and one-half years, with menacing rapidity and sinister import; something that is a "crisis, an occasion for action;" something which, unless intelligent and adequate and immediate action is taken, threatens the downfall of the whole economic structure. For such are the relations of modern life that if Samson perish, not the Philistines alone but his friends also will perish with him.

The condition of the railroads has to be appraised in two ways because they spend their revenues in two ways—for wages and for material and supplies. As to both these, the form of your questionnaire is not calculated to disclose the "whole truth." Comparisons should go back to include 1915 and should show both the calendar and fiscal years.

As to wages, I would like to say to you what I said publicly nine years ago and what I still heartily believe to be true:

"In something less than three generations there has been built up in the railroad service of this country a practice and a personnel that for efficiency and character stands without parallel in the world. Men entering the service are subjected at the outset to a careful physical examination; they receive systematic instruction and are held to a high state of discipline. In the main, they are subject to be called upon for duty at all hours of the day and on all days of the year. They are under control not only as to the disposition of their time but as to their personal habits. They are engaged in a hazardous occupation. Having in mind the character of the force so assembled, it

is of the highest importance that relatively the rate of wages paid and the conditions of employment should be such as to attract and retain in this service the pick of the industrial community."

I believed this then and to the extent that my experience and my judgment has ripened, I believe it still more now. I have no complaint to make of the increase in the wages of the railroad personnel, whether under the Adamson law or in any other manner. On the contrary, when I see a corporation, of whose output the railroads buy something like 45%, in a position where within twelve months it can voluntarily advance the wages of its employees 46%, advance the rate of dividends paid to its common shareholders from zero to 17% and change the earnings on its common stock from zero to more than 70%, and contrast its condition with the condition of the railroads, contrast its treatment of its men with the attitude that we are compelled to take toward ours, while I have no criticism to offer regarding its position, for myself and for every man on the payrolls, with my whole heart and energy, I resent that situation and I challenge everyone who is responsible for it. It is a situation not of our making, not of our bringing about; a situation that, had we a free hand, we would not for a moment permit to continue.

As a consequence of this the railroads have become the recruiting ground for every other employing interest, whether it be the Federal Government taking skilled mechanics for work in its arsenals and navy yards or the Contractor taking unskilled labor for work on the public highways. The constant changes in the body of the employees and the great number of promoted and green hands has resulted in a deterioration in railway labor efficiency estimated by many to be as high as 30%.

The carriers are here, and The Delaware and Hudson Co. is here, claiming that an emergency exists, that it has long been "coming forth into view," that it has reached the condition of

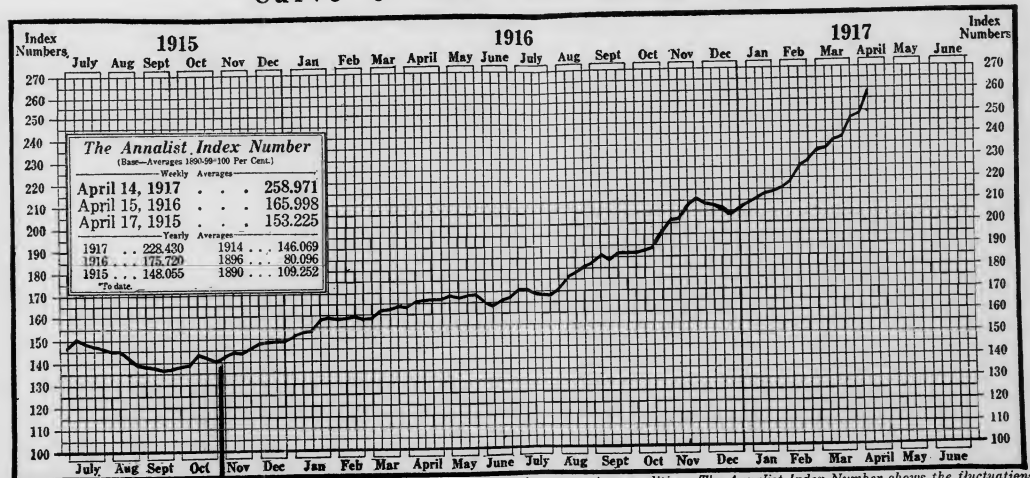
a "crisis," that it presents "an occasion for action," and they urge as that necessary action a general increase in all their freight rates of 15%.

The reasonableness of the proposed increase must rest upon the presumption that those relations among the rates for different services which persisted at the end of a 30-year period of effective Federal regulation of rates must be just and proper. Among the myriad of existing rates, your Commission has examined with great care and particularly a considerable number and pronounced upon them as to their reasonableness or unreasonableness, and as to these, whether "under order" or whether the order has lapsed, your Commission has itself certified as to their reasonableness, and where the facts were determined upon a basis existing prior to November, 1915, these rates, which your Commission has considered and as to the reasonableness of which it has certified, stand as to a justified increase not only along with but *superior* to the general schedule of rates. Should your Commission permit the applications for new rates to include all other rates that are now under its orders but require the exclusion of rates under order which apply to the movement of anthracite, I submit that to do so will be inconsistent and unjustifiable. Certainly, if the suggested exclusion of anthracite rates is insisted upon, the relations between anthracite rates and rates upon other commodities, which relation your Commission must have considered that it had fixed upon a reasonable and just basis only a year ago when the present schedule of anthracite rates was placed "upon order," (and that upon conditions existing in 1913), will be abrogated. Certainly, if the emergency coming forth in its extreme since 1915 justifies an increase in the general schedule of rates, it justifies an increase in those anthracite rates that you yourselves formally declared were put on a reasonable basis on the conditions existing in 1913.

This matter of an increase and an immediate increase in the anthracite rates is of extreme importance

not only for the seven so-called anthracite roads, a substantial part of whose earnings are derived from anthracite traffic, but also from the view of the market relations between anthracite and other fuels which are competitive or which may be substituted. I have attached hereto a statement showing some data as to the mileage, capital in use and service rendered by these properties. This statement shows also similar figures for lines in Official Classification Territory, for lines in Central Freight Association Territory, for lines in Trunk Line Territory and for lines in New England Territory. Your attention is called to the importance of these seven carriers at the present time, whether reckoned by their strength as transportation instruments or upon their geographical location. You will note that they closely approximate in importance all the lines in the territory West of Pittsburgh and Buffalo and that they constitute about 25% of all lines East of those points. I suggest that anything that sets the anthracite roads off by themselves and subjects them to a different treatment from the body of roads in which they are enmeshed can only be justified for reasons the mere statement of which will carry conviction, and that no reasons for so doing, either good or bad, have so far as I am advised, as yet been even suggested.

Curve of the Cost of Living

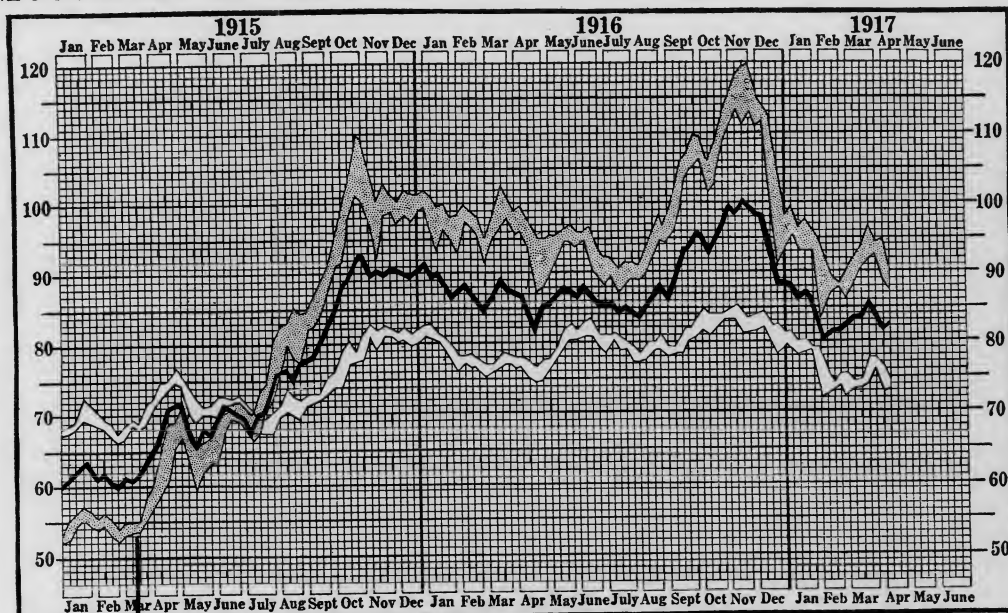


An index number is a means of showing fluctuations in the average price of a group of commodities. The Annalist Index Number shows the fluctuations in the average wholesale price of twenty-five food commodities selected and arranged to represent a theoretical family's food budget.

New York Monday, April 16, 1917

THE ANNALIST

Movement of Stock Market Averages—1915 to 1917



The heavy black line shows the closing average price of fifty stocks, half industrials and half railroads.

The shaded area shows the high and low average prices of the twenty-five industrials and the white area the corresponding figures for twenty-five rails.

STATEMENT SHOWING THE MILES OWNED, THE CAPITAL IN USE, THE EARNINGS, AND SERVICE RENDERED, FOR ROADS IN OFFICIAL CLASSIFICATION TERRITORY FOR THE YEAR ENDED JUNE 30, 1916.

	Miles of Line Owned.			Cost of Road and Equipment.	Total Operating Revenues.	Ton Miles.	Passenger Miles.
	First Main Track.	All Main Tracks.	All Tracks.				
Total Railways in Official Classification Territory	54,765.17	73,691.66	112,232.24	\$6,798,404,475	\$1,594,486,103	183,978,097,911	15,929,936,052
Total Railways in Central Freight Ass'n Territory.....	18,076.23	21,772.96	33,022.19	1,705,006,056	389,824,060	48,489,165,669	3,210,613,682
Per Cent. to Railways in Official Classification Territory.....	33.01	29.55	29.42	25.08	24.45	26.36	20.19
Total Railways in Trunk Line Territory.....	32,104.92	45,959.36	70,733.71	4,629,397,601	1,055,477,258	128,598,798,838	10,136,563,726
Per Cent. to Railways in Official Classification Territory.....	58.62	62.37	63.02	68.09	66.20	69.90	63.63
(*) Total Railways in New England Territory.....	4,584.02	5,960.04	8,476.34	464,000,728	149,134,785	6,890,138,400	2,589,758,651
Per Cent. to Railways in Official Classification Territory.....	8.37	8.09	7.55	6.83	9.35	3.75	16.21
Total Railways in Trunk Line and New England Territory.....	36,688.94	51,919.40	79,210.05	5,093,398,419	1,204,612,043	135,488,932,242	12,719,322,877
Per Cent. to Railways in Official Classification Territory.....	66.99	70.45	70.58	74.92	75.55	73.64	79.85
(*) New York Central, Pennsylvania and Baltimore & Ohio lines East of Buffalo, Pittsburgh and Parkersburg.....	8,734.00	13,584.00	21,486.00	1,983,951,912	420,843,937	47,610,319,903	4,359,409,804
Per Cent. to Railways in Official Classification Territory.....	15.94	18.43	19.14	29.17	26.39	25.87	27.36
Anthracite Carriers:							
Philadelphia & Reading.....	1,580.76	2,318.84	3,616.92	227,738,496	64,277,981	6,818,096,735	496,363,407
Lehigh Valley.....	1,370.36	2,088.63	3,339.45	192,805,768	47,382,569	5,990,465,278	228,273,582
Delaware and Hudson.....	1,037.31	1,327.10	2,029.65	111,504,388	26,628,045	3,322,996,646	136,794,119
New York, Ontario & Western.....	468.57	622.60	864.92	88,776,621	8,942,252	822,388,317	70,037,483
Delaware, Lackawanna & Western.....	940.57	1,484.10	2,616.36	203,571,960	49,335,739	5,010,072,493	540,372,771
Erie and New York, Susquehanna & Western.....	2,453.32	3,682.02	5,562.93	471,930,015	78,155,312	9,760,497,568	727,481,805
Central Railroad of New Jersey.....	638.10	960.41	1,772.29	101,304,921	35,462,929	2,650,847,345	402,435,323
Total.....	8,488.99	12,482.70	19,802.53	1,397,633,719	308,184,830	34,375,354,382	2,601,757,490
Per Cent. to Railways in Official Classification Territory.....	15.50	16.94	17.64	20.56	19.33	18.68	16.33
Per Cent. to Railways in Central Freight Ass'n Territory.....	46.96	57.33	59.96	81.97	79.06	70.89	81.04
Per Cent. to Railways in Trunk Line Territory.....	26.44	27.16	27.90	30.19	29.20	26.73	25.67
Per Cent. to Railways in New England Territory.....	23.13	24.04	25.00	27.44	25.58	25.37	20.46
Per Cent. to New York Central, Pennsylvania and Baltimore & Ohio lines East of Buffalo, Pittsburgh and Parkersburg.....	92.50	91.89	92.21	70.46	73.23	74.29	59.91

(*) Excluding the Boston & Albany, for which separate figures are not available.

(†) B. & O. figures estimated approximately.

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